2020 Spending Review: what does it mean for the NHS?

At the start of the pandemic, the government made it clear that the NHS would get whatever it needed to deal with COVID-19. The Spending Review on 25 November, which covered public sector funding for 2021/22, went some way to delivering on this commitment.

An extra £3bn was allocated to the NHS for next year: £1bn to begin tackling the backlog in planned care, £500m to improve access to mental health services, and £1.5bn to help ease existing financial pressures. The significant new investment in mental health is particularly welcome given the surge in demand that mental health trusts are reporting. A further £17.3bn was set aside to cover other COVID-19 related costs, including £15bn for NHS Test and Trace, and £2.1bn to maintain and distribute stocks of personal protective equipment.

The overall Department of Health and Social Care capital budget has been increased from £7.0bn in 2019/20 to £9.4bn in 2021/22. This rise will help pay for the first year of two longer term funding commitments: overall £5.4bn will be spent over the next five years making progress on building 40 new hospitals and upgrading a further 70. £1.4bn of that will be spent in 2021/22.

However, these continue to be uncertain times for the NHS. What the Spending Review has not done is provide funding for the ongoing costs of treating people with coronavirus or covered the knock-on financial effects of the pandemic on the NHS – for example, the loss of income that trusts would normally have earned from other sources. This is understandable: no-one in the NHS or in central government knows what COVID-19 will cost the service in 2021/22, because we cannot predict how much longer the pandemic will continue, or how severe it will be in the months ahead. This is an ongoing discussion, with the government saying it will agree further funding with the NHS next year. When extra money is allocated, it is vital that it accounts in full for both direct and indirect costs, and that it reaches all parts of the NHS provider sector that need it: acute, ambulance, community, and mental health trusts.

As the NHS moves out of the pandemic, it will find money is tight. The Chancellor began his speech by saying “Our health emergency is not yet over. And our economic emergency has only just begun.” The
Office for Budget Responsibility (OBR) forecasts that the UK economy will shrink by 11.3% this year and not reach pre-crisis level until the end of 2022.

It is therefore not surprising that the NHS’ core revenue budget (which excludes COVID-19 related costs) is not getting a boost. In line with the original long-term settlement, set out by then Prime Minister Theresa May in June 2018, the core NHS budget will increase by 3% in real terms next year – a settlement that is both generous compared to other public services, and likely insufficient to fund the recovery and transformation aspirations set out in the NHS long term plan.

On capital, the extra funding is welcome – NHS Providers has been calling for an improved capital settlement for the NHS for more than a year. But it should be remembered that much of the additional money has already been earmarked for specific purposes: £325m next year for new diagnostics equipment, such as MRI and CT scanners, and £165m to replace mental health dormitories with single en-suite rooms. There is not yet enough money budgeted to fund the government’s full hospital building programme and there are no clearly expressed expectations of what should be delivered in the first five years. More investment is certainly needed for mental health trusts, which have so far not received an adequate share of this pot, and many providers have large backlogs of maintenance work which need addressing too.

The government announced that existing public health grants will be maintained and that local authorities will be able to access over £1bn more funding for social care next year. No specific long-term commitments have been made.

Given overall public expenditure pressures and the economic uncertainty ahead, the Spending Review was a pragmatic response to the challenges the NHS faces. Trusts have the money they need to start tackling the backlog in planned care and meet rapidly escalating mental health demand, both caused by COVID-19. For those looking to invest in new diagnostics equipment, eradicate mental health dormitories or make progress on their hospital building plans, the increased capital budget may present new opportunities. However, COVID-19 funding must be kept under review and, until the long-term settlement is revisited, or the government reassess its priorities for the NHS, there will continue to be a tension between the two.
What does it mean for governors?

Governors may wish to ask how much of the additional £3bn for the NHS will reach their system, and what it will pay for in terms of additional elective operations, diagnostic procedures, and mental health care locally. They might also question whether their trust is on the list of those receiving capital funding for hospital building, upgrades or replacing mental health dormitory accommodation, and what will be delivered with that money.

* The reason there is no capital figure for 2020/21 is that it is such an anomalous year – a lot of planned spending slipped, a lot of unexpected spending has been made, including to help with an economic stimulus in the summer.